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RUCPDOC/DEPT OF COMMERCE WASHINGTON DC PRIORITY
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RHMFIUU/DEPT OF JUSTICE WASHINGTON DC PRIORITY
RUEATRS/DEPT OF TREASURY WASHINGTON DC PRIORITY
RHEHAAA/NATIONAL SECURITY COUNCIL WASHINGTON DC PRIORITY

UNCLAS SECTION 01 OF 02 MEXICO 003752

SIPDIS

STATE FOR EEB/TPP DEBORAH GROUT, BRIAN NAFZIGER
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STATE PASS USTR FOR JOHN MELLE, CARA MORROW

SENSITIVE

E.O. 12958: N/A
TAGS: ETRD ECON
SUBJECT: AGREEMENT ON TARIFF REDUCTION SCHEME

¶1. (U) Summary: After a protracted negotiation, the Calderon Administration has reached an agreement with Mexico's private sector to reduce or eliminate tariffs on imports from non-FTA partner countries. The agreement also includes a promise to simplify and expedite Mexican customs procedures. This is part of a Presidential initiative to improve the competitiveness of Mexico's producers as well as extend the benefits of trade to Mexico's SME's. At the G20 meeting on November 15, President Calderon joined President Bush and other leaders in a pledge to refrain from raising new barriers to trade. Calderon is not only adhering to this commitment; he is reducing barriers to trade in the hopes of spurring economic growth and opportunities to offset a deeper economic downturn. End Summary.

¶2. (U) On October 8 President Calderon announced various measures aimed at offsetting the effects of the current global situation. He called on the Economy and the Finance Secretariats to spur economic growth and development opportunities and investigate measures to simplify foreign trade and customs procedures, reduce or eliminate tariffs on a variety of manufactured goods, as well as provide financial support for Mexico's SME's - the backbone of the Mexican economy. The Secretariats discussed these measures in an internal memo which was somehow leaked to the private sector.

¶3. (U) The contemplated proposal was to reduce tariffs on imports of finished goods from 10 percent to 5 percent in 2009 and to 2 percent in 2012 in some of Mexico's most sensitive sectors - textiles and apparel, chemicals, furniture, and small appliances. This raised concern among Mexico's leading trade organizations, such as CONCAMIN (the National Confederation of Industry Chambers) and CANACINTRA (the National Chamber of Industry Transformation), who argued that rather than help, it would put Mexico's industries and employment at risk.

¶4. (U) The government acknowledged that approximately 30,000 jobs would be lost between 2008 and 2012. However, it estimated almost 230,000 jobs would be gained over the same time period in dynamic sectors such as services, construction and agriculture - sectors which generate 85 percent of the total jobs in Mexico. Further, the government pointed out that 91 percent of Mexico's imports already entered duty-free. CONCAMIN and CANACINTRA disputed the government's projections and argued the tariff reduction would invite further "unfair" competition from Asia and other Latin American countries.

¶5. (U) The Economy and Finance Secretariats argued that Mexico has not made progress over the past years in streamlining its tariff schedules, especially for its non-FTA partners. Consequently, there is substantial distortion, and the transit of products through the

U.S and Canada has been abused (triangulation) to circumvent the higher tariffs on imports from non-FTA partners. A tariff reduction scheme would not only reduce the workload and simplify Mexico's customs procedures, it would also reduce the paperwork for businesses and increase their efficiency as well as facilitate imports for SME's.

¶6. (U) The government was determined to implement these measures, and the industry was equally resolute in demanding a say in what it viewed to be a unilateral decision by the government. At the forefront of the government's efforts was Economy's Under Secretary for Industry and Commerce Lorenza Martinez, newly arrived to the Secretariat in September and relatively untested, although she used to work for the Finance Secretariat as the Head of the Insurance and Securities Unit. Following the announcement of the government's plans in the media by the trade organizations, Martinez pledged to work with the trade organizations in reaching an agreement that would both "address [the government's] concerns as well as affect the fewest [people] possible."

¶7. (U) The negotiations involved several meetings over the past few weeks between Martinez and various chambers and other representatives of the private sector. In early December, in an effort to gain additional leverage, the trade organizations put out in the press that they had successfully delayed the government initiative until sometime late in 2009. EconOff learned from Economy and other parties involved in the negotiations that this was not true; in fact, the government was determined to implement the tariff reduction scheme before the end of the year, with or without the consent of the private sector.

¶8. (U) On December 18, the trade organizations and the Economy and Finance Secretariats reached an agreement to reduce or eliminate gradually tariffs on 80 percent of the products imported from non-FTA partner countries over the next four years (2009-2013). Only 40 percent of the duties will be modified in 2009. The sensitive automotive, shoes, and apparel sectors will undergo a less strenuous but gradual reduction in tariffs over the next four years. The details of the agreement will be submitted today for publication in the national register, just in time to be implemented for the new year. The agreement also includes measures to simplify and expedite Mexican customs procedures, thereby improving the competitiveness and productivity of Mexico's SME's.

¶9. (SBU) Post Comment: Post is uncertain as to what got both parties to reach an agreement, but the resolve of the government was definitely a factor. One observer told EconOff that this was a real test for the Calderon Administration; if it had been unable to implement this initiative, it would have been the government's first big loss and would have revealed the limit of this Administration's power. There is speculation that the private sector managed to extract a promise from the Economy and Finance Secretariats to reduce energy costs in exchange for their support for a tariff reduction scheme. Nevertheless, at a time when other countries in Latin America and elsewhere are considering imposing measures to increase tariffs or other barriers to trade in order to offset the effects of the current financial crisis, the Government of Mexico is reducing barriers to trade in the hope that exposing Mexico's private sector to foreign competition will be the antidote to counter a deeper economic downturn. End Comment.

BASSETT